

**Contact: Mayor Sebastian
Giuliano**
City of Middletown
Phone: 8603443401

245 DeKoven Drive
Middletown, Connecticut
06457

**Office of the Mayor
City of Middletown**

Press Release

City Receives Annual Audit Report From BlumShapiro

Deficiencies in Board of Education Spending Practices Highlighted

Middletown, Connecticut: Mayor Sebastian N. Giuliano today announced that the City has been provided the audit report and management letter from BlumShapiro. Contained within the report are deficiencies in Board of Education spending practices which have been the center of controversy between the Mayor and the Superintendent of Schools.

The audit firm identified six (6) areas of deficiencies which are highlighted in the attached Management letter. The Mayor has long argued that the accounting practices of the Board of Education are not in compliance with Best Fiscal Practices or in compliance with the City Charter. Chapter VI, Finance and Taxation, Section 1 stipulates that "Any portion of an annual budget appropriation remaining unexpended and unencumbered at the close of the fiscal year shall lapse and said portion of any appropriation shall revert to the respective fund of the City." In fact, in the last five (5) years the Board of Education has taken no initiative to return back to the City of Middletown ANY unexpended funds. The audit report released to the City on April 13, 2011 shows that the Board is not liquidating purchase orders which have expired and returning funds back to the City as required by the Charter. Highlights of the report and examples of the conduct follow:

- Any encumbered fund is for a specific purpose. The Board of Education in July and August takes left over funds from these accounts and places them into other encumbered accounts to avoid return of funds to the City. Purchase Orders are increased for no apparent reasons.
- Auditors noted that invoices are being produced and paid prior to the issuance of purchase orders.

For Release 2:00 p.m. EDT, April 14, 2011

more

- Purchase Orders are being increased after final payment for project or services is complete. A Purchase Order is for a specific cost and a specific project/purpose. The Board of Education is frequently increasing Purchase Orders for expenditures which are beyond the original scope of the project/purpose.
- The Board of Education continues to order items without proper Purchase Orders in place for commitment of funds.
- When a Purchase Order is created it is for funds to be expended by 1 vendor. The normal process is to close out a Purchase Order when the project is done. The Board of Education is paying multiple vendors under a single purchase order with a single vendor. This produces confusion on who is being paid; how much is being paid for what services are they being paid for. There is no way to track who is getting paid, or why, under these types of Purchase Orders.
- The Auditors noted that Purchase Orders are being generated using a 99999 code which means no specific vendor is being listed. Again, the City and the Public will have no idea who is being paid how much they are being paid and for what purpose the vendor is being paid.
- On a random selection, the auditors found out of 21 Purchase Orders reviewed, 11 were declared deficient.
- The Auditors noted that many identical projects that fall below the bidding threshold of \$7,500 are being performed throughout the district. Common practice, and in compliance with the Purchasing Ordinance with the City of Middletown would require these projects to be consolidated into a bid project, where competitive bids are obtained and the Board can then be assured that they are receiving fair and competitive pricing for the award of the project. By doing this, the Board could take advantage of competitive bidding and provide possible savings to the City.
- The Board of Education sold computers on EBay. Policies and procedures are in place for the sale or disposal of fixed assets. The Board sold these computers and placed the sale monies into a discretionary account. The auditors were also not able to review an inventory of fixed assets regarding computer equipment as no such inventory exists.
- The audit identified that the Board uses prior year funds to "pre-purchase" goods and services. An example was that they purchased in FY09-10 heating oil for the FY10-11

year to the sum of \$468,980. The Board requested in the FY10-11 budget funds to cover the same expenditure.

- Mileage reimbursements. The Auditors uncovered issues with the reimbursement of mileage for Board of Education officials. The City of Middletown cannot discuss this matter further as it is the subject of a pending criminal investigation.

In releasing the findings, Mayor Giuliano, a Republican and Christine Bourne, City Treasurer and elected Democrat indicated their dismay over the haphazard and unreliable accounting practices being utilized by the Board of Education. "As the Chief Elected Official for the City of Middletown, I have a responsibility to ensure that the departments of the City, including the Board of Education, are following Best Accounting Practices in the utilization of public funds. I am disappointed over the irresponsible practices of the Board of Education in failing to assure that the public's money is being properly tracked and utilized in a fashion that best promotes public education. This community has always been supportive of funding for public education and they, the taxpayers and parents of our students deserve better from leadership. The public expects us to be responsible with their money. When I hear that teachers are going without paper and buying their own supplies and we uncover this type of waste I am simply angry. We are not Washington, DC, we are not the State of Connecticut, we are Middletown, a town that I love, have lived here for my entire life and raised my family here, and I will not in my tenure as Mayor let the public trust be violated," stated Giuliano.

BlumShapiro

Accounting | Tax | Business Consulting

To the Board of Finance
City of Middletown, Connecticut

In planning and performing our audit of the financial statements of the City of Middletown, Connecticut (the City) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

We noted the following matters involving the internal control over financial reporting and its operation, which we offer as constructive suggestions for your consideration as part of the ongoing process of modifying and improving accounting controls and administrative practices.

Purchasing

The purchasing cycle of the Board of Education includes the issuance of purchase orders to ensure the availability of funds prior to the commitment of a purchase. This process requires a properly prepared purchase order issued to a specific vendor for specific goods or services on or before the end of the fiscal year. Once issued, this order is recorded in the budgetary records as a commitment against the appropriation anticipated in the budget preparation process for such goods and services. During the course of our audit, we reviewed the issuance and subsequent liquidation of purchase orders within the Board of Education and found the following:

- Several fiscal year 2009 purchase orders were liquidated in 2010 for an amount greater than the original purchase order amount. Purchase orders represent a specific reservation of funds and should only be liquidated to the amount of the purchase order. If in the subsequent period additional funds are required they should be charged to that years operating budget.
- The original amount of a certain purchase order was changed subsequent to year end
- We noted several instances where the date of an invoice for certain goods or services was dated prior to the issuance date of the purchase order. The purpose of a purchase order system is to determine the availability of funds prior to a commitment to purchase and therefore invoices should not be dated prior to the purchase order date.
- We noted ten instances where multiple vendors were paid against a purchase order that was properly issued during the 2009 fiscal year to one specific vendor. Although payments were made to legitimate vendors, a purchase order should only be liquidated to the original vendor on that purchase order, and, therefore, charging multiple vendors to a purchase order is improper.

- We noted that purchase orders are generated using a 99999 code meaning no specific vendor. A purchase order should only be issued to represent a specific contract or order to a particular vendor. Use of "no name" vendor purchase orders should be prohibited.

We recommend that the Board of Education review the current purchasing practices and make any required changes to eliminate these types of exceptions to the current purchasing policies and procedures.

Travel Reimbursements

During the course of our audit, we tested the employee reimbursement process related to travel expenses.

[REDACTED]

[REDACTED]

Bidding Procedures

Our audit of the various Board of Education expenditures indicated that many projects that fall below the bidding threshold of \$7,500 are performed each year at the various schools throughout the City. We recommend the Board of Education review the awarding of these smaller contractual amounts to see if they can be consolidated in one larger contract. This contract would require a competitive bidding process and would possibly allow for savings to the City.

Fixed Assets

Our audit of the City's and the Board of Education's fixed assets indicated that the current records are not maintained on a perpetual basis. We recommend the current accounting policies related to fixed assets be updated to require that the fixed asset records are maintained on a perpetual basis. These policies and procedures should provide the reporting of all fixed assets on a current basis including the original acquisition price, any improvements and finally the removal of any sold or disposed of fixed asset. These policies and procedures should also provide for the proper accounting treatment of construction in progress as well as the sales methods allowable for the selling of outdated or obsolete fixed assets.

General Ledger Control

General ledger control over the educational grants fund is currently maintained by the City's accounting department based on summary transactions reported by the Board of Education. In addition, general ledger control has not been established for the Cafeteria fund. Currently the Board of Education maintains detailed expenditure and revenue records for these funds and reports such transactions to the City for posting to the general ledger, where they are commingled into one fund. At year end, for financial statement purpose, significant adjusting entries are required to accurately report the operations of these funds as a monthly reconciliation of the detailed transactions and the general ledger control accounts are not performed.

We recommend that general ledger control is established for the Cafeteria fund and that procedures are established that provide for the monthly reconciliation of the detailed accounts maintained by the Board of Education and the general ledger control maintained by the City.

Financial Management System

In addition to maintaining the current financial management system, the City also utilizes a subsystem of spreadsheets that provide for the proper reporting of year-end balances in accordance with generally accepted accounting principles. This subsystem is required as the periodic reporting of financial information does not include accrual basis information.

We recommend the City review the functionality of the financial management system, the related chart of accounts and the current accounting policies and procedures to determine if the system can be modified to provide for the periodic and yearly reporting of the City's financial position in accordance with generally accepted accounting principles.

Future Standards

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for financial statements for the periods beginning after June 15, 2010. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement also establishes fund balance classifications based on the extent to which a government is restricted by constraints imposed upon the use of the resources reported in the governmental funds.

We recommend the City establish a comprehensive plan to address the various provisions and effects of the new reporting standard. The implementation date for the City is for the fiscal year ending June 30, 2011. As such, the City should develop a systematic plan that requires analysis of the constraints imposed upon the use of the various governmental fund resources to ensure proper fund classification in accordance with the new fund definition.

City of Middletown, Connecticut
Page Four

This letter should be read in conjunction with our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards dated December 30, 2010.

This communication is intended solely for the information and use of management, members of the Board of Finance, Town Council, others within the organization, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.

December 30, 2010

Middletown BOE Summary of Findings

Scope of Work: Fiscal year 2009-2010 audit. As part of the audit we audit we performed tests in the following areas:

1. Prior year encumbrance liquidations for BOE General Fund. Population 89 purchase orders with total amount of \$1,394,320. We tested 21 purchase orders.
2. We performed control testing of FY 2009-2010 expenditures as required by single audit.

Summary of Findings

1. Multiple vendors are paid from the same purchase order. The following purchase orders were used to pay multiple vendors:

<u>PO Number</u>	<u>Account Description</u>
0809-00026	Administration Commitment
0809-00285	Maintenance /Plant Commitments
0809-00333	Maintenance/Plant Commitments
0809-00355	Maintenance/Plant Commitments
0809-00406	Maintenance/Plant Commitments
0809-00406	Maintenance/Plant Commitments
0809-00417	Maintenance/Plant Commitments
0809-03864	Curriculum Commitments
0809-03867	Curriculum Commitments
0809-03867	Curriculum Commitments
0809-03874	Curriculum Commitments

2. Amount paid in FY10 exceeded amount that was encumbered at the end of FY09. Our testing found that PO 0809-03841 was liquidated for \$28,540 and the original encumbrance was \$16,000. The change was approved in FY10.
3. There were several line items with description posting corrections. Our test found that all corrections were made with PO that were created in FY10.
4. Purchase orders were changed after year end. We found that PO 0809-03691 was changed from \$20,000 to \$31,750.
5. We found one case where the date on the invoice was prior to the purchase order approval. PO 0809-03748.
6. We tested travel allowance for 2 employees and found that the amount reimbursed is not supported by either an actual or estimate of the travel expenses or by the employment contract.
7. We reviewed the back-up documentation for CDBG Grant for Accessibility for Youth and Families Services Project for \$20, 000 dated March 10, 2010. We determined that the grant money was spent for the intended project which was for replacing windows in the building across from BOE offices.

8. Gary Albanese & Sons Inc. invoices. There is a concern that this company performs several projects and that the bids are not correctly done. **Several of the invoices were below \$7,500 (amount required for bid).** We looked at invoices and they were for similar project, but done at different schools. We will recommend that BOE might need to look at combining similar project and going out to bid to ensure that they get the best rates.
9. **EBay transactions.** There were two computers sold on eBay. The current policy does not mention anything regarding eBay transactions. We will recommend that the policy be updated and have clear guidance regarding exceptions that are allowed.
10. There is a concern regarding **computer equipments** purchased but not being added to the inventory of **fixed assets**. We could not verify that because there was not fixed asset inventory available for us at the time of testing. We will recommend that BOE has a comprehensive and updated fixed asset inventory that includes technology equipment.
11. **Pre-purchases for FY10-11.** BOE purchased in fiscal year 09-10 heating oil for FY 10-11 for \$468,980.
12. **Out of State tuition payment** for Special Education student. We discussed the allegations with Special Education director. We were not able to look at any documentation since the records are confidential.

Open Items

During preliminary audit field work we were not able to conclude on the following items:

13. There is a concern regarding **bookcases for library in Superintendents office** purchase with grant money. PO was cut by maintenance not by Special Education Programs. **We did not test this item yet.** We will test that as part of single audit test to be performed for this grant.
14. **Time Cards** – There are allegation that some employees might have not prepared the time sheets correctly. **We would need more information.**
15. **Insurance Refunds** – Don't have backup information yet.

CHAPTER VI
FINANCE AND TAXATION

SECTION 1. BUDGET [Amended 11-4-2008]

Except as otherwise provided herein, not later than January 1st of each year, the Mayor, or the Mayor's designate, shall provide all Departments, Agencies, Offices and Commissions with forms for budgetary requests for the ensuing fiscal year.

On or before April 1st the Mayor shall transmit a proposed fiscal budget to the Common Council. The proposed budget shall consist of an operating budget and a capital budget. The capital budget shall consist of all funds necessary for any debt service payment needed during the fiscal year, including all payments for debt service incurred for the construction, renovation or improvement of any Board of Education buildings or property. The operating budget shall consist of all proposed expenditures for the fiscal year which are not part of the capital budget. All provisions for veto and referenda of the budget shall apply only to the entire budget and neither the operating budget nor the capital budget shall be subject to veto or referenda separately. The Common Council shall, prior to April 30th, hold public hearings on the proposed budget. The Common Council shall cause such proposed budget to be published at least once in a daily newspaper having a general circulation in the City and shall accompany such publication with a notice of the date of hearing, which date shall be at least two days after said publication. Upon such date, the Common Council shall meet to hear any parties interested in relation thereto, which meeting shall be held on or before April 30th. At such hearings, all electors and persons paying taxes or charges to said City shall have the right to be heard concerning any proposed budget item. The Council shall have the power to add, delete, increase or decrease any item in said proposed budget and, not later than the 15th day of May of each year, shall adopt a budget and make appropriations therefor.

The Mayor shall have the power to veto, in writing, any addition, deletion, increase or decrease in said budget as voted by the Common Council, provided that the Mayor then shall transmit said veto to the Common Council within five calendar days following the adoption of said budget by the Common Council. If the Common Council, by vote of two-thirds of its entire membership at a Special Meeting held for that purpose, shall readopt the item or items vetoed within ten days of receipt of said veto, the Budget shall be effective as adopted. In the event the Common Council shall not readopt the item or items disapproved, then the budget shall be effective as modified by the veto. Within 15 calendar days following the passage of a budget, the electorate of the City shall have the power to challenge the budget by means of a referendum as provided in this Charter. The Common Council shall within 10 days following any referendum adopt a budget in accordance with such determination. In the event of any additional Mayoral veto, or referenda, said Common Council shall proceed in like manner until a tax shall be levied and accepted to cover such budgets.

Such appropriations, when finally decided upon, shall be entered into the official records of the City and shall be subject to the inspection of any taxpayer during City Hall business hours. Any portion of an annual budget appropriation remaining unexpended and unencumbered at the close of the fiscal year shall lapse and said portion of any appropriation shall revert to the respective Fund of said City.

SECTION 2. SEPARATE BUDGETS PROVIDED

The Annual Budget prepared by the Office of the Mayor shall not include the budgets of those Boards, Commissions and Agencies for which separate budgets are required by the General Statutes or Special Acts. All separate budgets shall be subject to the referendum provisions contained in this Charter.

SECTION 3. TAX RATES ESTABLISHED

At the same time the Common Council shall approve the budget, it shall also fix the Tax Rate in Mills which shall be levied on the taxable property in the City as provided by Law. Said Tax shall be payable in two equal installments as shall be determined by the Common Council. Upon failure of any taxpayer to pay any installment of taxes within one month after the date on which said installment is payable, the full amount of the total bill shall be due and payable and subject to such interest charges as are provided by Statute. Any property tax due the City of Middletown in an amount not in excess of one hundred dollars (\$100) shall be due and payable in a single payment.

SECTION 4. ANNUAL AUDIT

The Common Council shall, by majority vote at a meeting to be held not later than one month after each Biennial Election, appoint a certified public accountant or firm who shall audit the books and accounts of the City, in accordance with the provisions of the General Statutes, and who shall perform such other duties as may be deemed necessary by the Common Council.

SECTION 5. ASSESSMENTS, COLLECTION WARRANT LIEN

In any case where, under the provisions of this Charter or of any bylaw or ordinance of the City, a sum of money, other than taxes, shall have been ordered by the Common Council to be paid by any person, or where any assessment shall have been made, or where any expense shall have been incurred by the City because of the failure of the property holder to comply with any order of the Common Council or with an ordinance, the Common Council may appoint a collector to collect such sums of money and assessments of expenses and shall cause the collector to account duly for the amount of same, the Mayor or Deputy Mayor shall issue a warrant authorizing such collector to collect same. Every such collector shall proceed in the same manner and have the same powers and be under the same regulations as by law prescribed for collectors of public taxes. All such sums of money, other than taxes, but including assessments or expenses, shall be subject to interest from the date when the same shall be payable at the same interest rate or rates and in the same manner as shall be provided by the General Statutes in case of delinquent taxes and shall remain a lien upon the property specially benefited by the public work or improvement with reference to which such

assessment was made or upon the property against which such expense be chargeable. Such lien and all liens created under the provisions of this Charter shall take precedence and priority over any lien or encumbrance on the property whereon the same shall be imposed, except taxes and other City liens prior in date, and any such lien may be foreclosed in the same manner as if such lien were a mortgage given to said City to secure the amount of such assessment or such expense, provided such lien shall not continue for a period longer than sixty days after the time when such assessment or such expenses shall become payable, unless before the expiration of said sixty days a certificate, signed by the Mayor or the City/Town Clerk of said City, describing the property on which the lien shall exist and the amount claimed by said City as a lien thereon, shall be lodged with the City/Town Clerk. Whenever any such lien shall have been satisfied, a certificate of such fact signed by the Mayor, the Deputy Mayor, or the City/Town Clerk of said City, shall be lodged with said City/Town Clerk. The City/Town Clerk shall record all such certificates in a book kept for that purpose and the reasonable expense of filing and discharging such lien shall be added to such assessment or expense. Any person willfully interrupting, hindering, abusing and resisting or obstructing any such collector in the discharge of the collector's duty shall be fined in an amount not exceeding one hundred dollars or imprisoned not exceeding sixty days or both in any criminal action brought before the Superior Court.

SECTION 6. LIENS, ASSESSMENTS FOR SERVICES

All water rents, sewer and sanitation charges and all service charges due for any service under the provisions of this Charter shall be and remain a lien upon the house, tenement or lot, wherein or in connection with which service shall have been rendered to the owner or occupant thereof and said lien shall have priority over all other liens and encumbrances on said house, tenement or lot, whereon the same is imposed, except taxes, tax liens and other City liens prior in date, and may be enforced or foreclosed by and in the name of the City of Middletown, before any Court having competent jurisdiction thereof, in the same manner as mortgages on lands and buildings are foreclosed. The Common Council of the City of Middletown shall have the right and power to authorize the sale of any interest in any house, tenement or lot, which the City shall acquire by reason of such foreclosure, and the proceeds of any such sale shall be paid into the City treasury. Such liens shall be perfected and be in effect in accordance with provisions of the General Statutes relating to the taxes on real estate.

CHAPTER VII SANITARY DISPOSAL DISTRICT

SECTION 1. SANITARY DISPOSAL DISTRICT; BOUNDARIES [Amended 11-4-2008]

The Sanitary Disposal District shall continue to be that portion of the City of Middletown as is constituted the Sanitary Disposal District on the effective date of this Charter, together with any other territory contiguous thereto which may hereafter be added in accordance with the provisions of this Charter. The expense for the maintenance and operation of said district shall be a service charge upon all property located within the district. The provisions of Special Act No. 466 (1951) of the Connecticut General Assembly not inconsistent with the provisions herein shall continue in effect.

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☒ yes ☐ none reported

Type of auditors' report issued on compliance for major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☒ yes ☐ no

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.553/10.555	Child Nutrition Cluster
84.010/84.389	Title I, Part A Cluster
84.027/84.173/84.391/84.392	Special Education Cluster
84.287	Twenty First Century Community Learning Centers
84.394/83.397	State Fiscal Stabilization Fund Cluster
14.218	Community Development Block Grant/Entitlement
20.205	Highway Planning and Construction Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

15653



ADVANCED COMPUTER TECHNOLOGIES

860 FOUR ROAD
BERLIN, CT 06037

51 57 119

6/17/2010

\$ 2,960.00

DOLLARS

Middletown Schools

Two Thousand Nine Hundred Sixty and 00/100

Middletown Schools
Board of Education
311 Hunting Hill Ave
Middletown, CT 06457

[Signature]
AUTHORIZED SIGNATURE

⑆015653⑆ ⑆01190057⑆ 00941384724⑆

ADVANCED COMPUTER TECHNOLOGIES

Middletown Schools

6/17/2010

Casablancas (2) sold on ebay, paid into paypal

2,960.00

15653

*E rate acct
USF*